

## Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 IO-10 ISO-00 STR-04 OIC-02 AGR-05

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INFO USDEL MTN GENEVA

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SUBJECT: MULTILATERAL TRADE NEGOTIATIONS (MTN)--COUNTRY PROFILE  
ON ISRAEL

REF: STATE 181868

1. BEGIN SUMMARY. THE ECONOMIC AND POLITICAL BASIS FOR ISRAEL'S MTN APPROACH AS WELL AS THE POLICIES AND MECHANISMS FOR ACHIEVING ISRAEL'S TRADE OBJECTIVES ARE DISCUSSED IN THIS DISPATCH. A BRIEF DESCRIPTION OF KEY GOVERNMENTAL AGENCIES AND PERSONNEL IS INCLUDED. END SUMMARY.

2. ECONOMIC AND POLITICAL BASIS FOR ISRAEL'S MTN APPROACH:  
ISRAEL'S ECONOMY IS CHARACTERIZED BY RAPID GROWTH AND HEAVY DEPENDENCE ON FOREIGN TRADE. LIMITED NATURAL RESOURCES AND MANPOWER, HEAVY DEFENSE NEEDS, AND THE DEMANDS OF IMMIGRANT ABSORPTION NECESSITATE LARGE IMPORTS. WHILE ISRAEL'S EXPORT INDUSTRY HAS GROWN RAPIDLY, THE EXCESS OF IMPORTS OVER EXPORTS HAS GROWN EVEN FASTER. ISRAEL'S CURRENT ACCOUNT  
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DEFICIT, WHICH BEFORE THE OCT 1973 WAR AVERAGED ABOUT \$1

BILLION PER YEAR, HAS NOW REACHED AN ANNUAL RATE OF APPROXIMATELY \$4.0 BILLION.

3. A MAJOR EFFORT IS BEING DEVOTED TO THE EXPANSION OF EXPORTS. ISRAEL IS ALREADY TAKING ADVANTAGE OF POTASH AND PHOSPHATE DEPOSITS WHICH FORM THE BASIS OF A GROWING CHEMICAL AND FERTILIZER INDUSTRY. ISRAEL HAS ALSO EXPLOITED ITS AGRICULTURAL POSSIBILITIES VIRTUALLY TO THE MAXIMUM ALLOWED BY ITS LIMITED WATER SUPPLY; IT EXPORTS FRESH VEGETABLES, CITRUS AND FLOWERS AS WELL AS SUCH FIELD CROPS AS COTTON AND PEANUTS. HOWEVER, BECAUSE OF THE LIMITED POTENTIAL FOR FURTHER GROWTH IN THESE SECTORS EMPHASIS IS INCREASINGLY PLACED ON HIGH-TECHNOLOGY, INDUSTRIAL PRODUCTION.

4. ISRAEL EXPORTS A WIDE RANGE OF INDUSTRIAL PRODUCTS, FROM ADVANCED ELECTRONIC EQUIPMENT TO TEXTILES. BECAUSE OF ITS POLITICAL AND ECONOMIC ISOLATION FROM ITS NEIGHBORS, ISRAEL HAS HAD TO LOOK TO EUROPE AND THE U.S. FOR TRADING PARTNERS. NEARLY THREE QUARTERS OF ISRAEL'S TRADE IS WITH WESTERN EUROPE AND THE U.S. THE RECENTLY SIGNED LIMITED FREE TRADE AGREEMENT WITH THE EC AND THE ANTICIPATED DESIGNATION OF ISRAEL AS A BENEFICIARY OF THE U.S. GSP REPRESENT IMPORTANT ECONOMIC AND POLITICAL ACHIEVEMENTS FOR ISRAEL.

5. ISRAEL IS CLASSIFIED AS A QUOTE DEVELOPING UNQUOTE COUNTRY BY THE OECD AND THE INTERNATIONAL MONETARY FUND. HOWEVER, THE WORLD BANK RECENTLY DECIDED THAT ISRAEL NO LONGER QUALIFIED FOR LOANS BECAUSE OF ITS HIGH PER CAPITAL INCOME. THIS QUESTION OF QUOTE DEVELOPING UNQUOTE COUNTRY STATUS IS VERY IMPORTANT TO ISRAEL. IN ITS ARGUMENT FOR SUCH STATUS, ISRAEL EMPHASIZES THAT IT HAS TO SPEND A GREAT PERCENTAGE OF ITS INCOME ON DEFENSE WITH THE RESULTANT MASSIVE CURRENT ACCOUNT DEFICIT. UNTIL RECENTLY, ISRAEL BASED ITS CLAIM TO DEVELOPING COUNTRY STATUS ON THE FACT THAT IT WAS ABSORBING LARGE NUMBERS OF IMMIGRANTS. HOWEVER, GIVEN THE PRESENT DECLINE IN IMMIGRATION, THIS POINT IS NOT AS GERMANE.

6. BRIEFLY STATED, ISRAEL'S OVERALL TRADE POLICY STRATEGIES ARE TO:

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A) STRENGTHEN ITS TRADING TIES WITH EUROPE, ESPECIALLY THE EC, AND TO THE U.S.;

B) RESIST REGIONAL PROTECTIONISM IN SCHEMES WHICH MIGHT EXCLUDE ISRAEL;

C) SUPPORT INTERNATIONAL APPROACHES TO FOREIGN TRADE SUCH AS THE MTN: AND

D) SUPPORT UNILATERAL TRADE CONCESSIONS FOR DEVELOPING COUNTRIES PROVIDED ISRAEL IS DEFINED AS A DEVELOPING COUNTRY.

7. ISRAEL'S OBJECTIVES IN THE MTN ARE TEMPERED BY ITS ASSESSMENT THAT AS A SMALL COUNTRY IT CANNOT AFFECT THE OUTCOME OF THE LARGER ISSUES, ESPECIALLY IN THE TARIFF FIELD. MOREOVER, THERE HAS BEEN SOME CONCERN EXPRESSED BY ISRAELI BUSINESSMEN ABOUT THEIR ABILITY TO COMPETE WITH EC EXPORTS AS THE EC-ISRAEL AGREEMENT COMES INTO EFFECT. THIS CONCERN WILL UNDOUBTEDLY AFFECT ISRAEL'S INTEREST IN ANY FURTHER-REACHING TARIFF REDUCTIONS. ISRAEL WILL FOLLOW THE PROCEEDINGS ON AN ITEM-BY-ITEM BASIS AND WILL CERTAINLY BE INTERESTED IN ANY POSSIBILITY OF REDUCING DUTIES ON DIAMONDS. IN THE NON-TARIFF BARRIER AREA, ISRAEL WILL BE INTERESTED IN ATTEMPTING TO ENSURE THAT ITS INTERESTS WILL NOT BE ADVERSELY AFFECTED. SPECIFICALLY, PHYTOSANITARY REGULATIONS ARE OF INTEREST TO ISRAEL, PARTICULARLY FOR CITRUS AND MELONS. IN THE FIELD OF STANDARDS, ISRAEL WILL PROBABLY SEEK MODIFICATION OF ANY DRAFT CODE WHICH WILL HAVE THE EFFECT OF SWAMPING ITS LIMITED TESTING CAPACITY. ISRAEL WILL ALSO SEEK TO IDENTIFY SPECIFIC INTERESTS IN THE AREA OF QUANTITATIVE RESTRICTIONS. NON-AGENDA ITEMS OF INTEREST TO ISRAEL ARE THE QUESTIONS OF ACCESS TO SUPPLY AND GOVERNMENT PROCUREMENT.

8. HOWEVER, THE MTN IS BASICALLY OF SECONDARY IMPORTANCE TO ISRAEL. INCREASED EXPORTS ARE TOO IMPORTANT FOR ISRAEL TO BE LEFT TO AN INTERNATIONAL CONFERENCE. IT HAS AGGRESSIVELY SOUGHT AND SUCCESSFULLY SECURED IMPORTANT CONCESSIONS FROM BOTH THE EC AND THE U.S.

9. ISRAEL'S POLICIES AND MECHANISMS FOR ACHIEVING TRADE LIMITED OFFICIAL USE

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OBJECTIVES: ISRAEL AND THE EC SIGNED A LIMITED FREE-TRADE AGREEMENT IN MAY 1975. THIS WAS THE CULMINATION OF YEARS OF EFFORT ON THE PART OF ISRAEL TO INTEGRATE ITSELF TO THE GREATEST DEGREE POSSIBLE INTO THE EUROPEAN MARKET. UNDER THE AGREEMENT, EC CUSTOMS DUTIES WILL BE GRADUALLY SCALED DOWN AND TOTALLY ELIMINATED BY JULY 1, 1977 EXCEPT FOR CERTAIN AGRICULTURAL EXPORTS. ISRAEL WILL GRADUALLY ABOLISH ITS CUSTOMS DUTIES ON EC INDUSTRIAL EXPORTS AND PERMIT FREE ENTRY IN 1989. ISRAEL IS ALSO EXPECTED TO BE DESIGNATED A BENEFICIARY OF THE GSP BY THE U.S.

10. ISRAEL HAS BEEN IN THE PROCESS OF RATIONALIZING ITS TARIFF POLICY SINCE 1962. AT THAT TIME IMPORT QUOTAS, LICENSING REQUIREMENTS AND OTHER ADMINISTRATIVE DEVICES WERE UTILIZED TO PROTECT LOCAL INDUSTRIES. THESE MEASURES

WERE GRADUALLY REPLACED BY FISCAL DEVICES. AS OF 1969, ALMOST ALL IMPORTS WERE FREED FROM ADMINISTRATIVE RESTRICTIONS. SUBSEQUENTLY, THE OBJECTIVE HAS BEEN TO REDUCE CUSTOMS DUTIES TO A LEVEL AT WHICH THE TOTAL COST OF FOREIGN EXCHANGE SAVED BY DOMESTIC PRODUCTION WAS EQUAL TO EXPORT REBATES. THE HIGHEST CUSTOMS DUTIES ARE ON NONESSENTIAL FOODSTUFFS, LUXURIES, CONSUMER GOODS AND MANUFACTURED GOODS SIMILAR TO THOSE PRODUCED IN EUROPE. CUSTOMS SURCHARGES HAVE BEEN IMPOSED PERIODICALLY, PRIMARILY TO DISCOURAGE IMPORTS, BUT ALSO TO RAISE REVENUE. AT PRESENT THE SURCHARGE IS 15 PERCENT.

11. AN IMPORTANT NON-TARIFF BARRIER IS ISRAEL'S IMPORT LICENSING SYSTEM. MORE THAN 50 PERCENT OF ISRAEL'S IMPORTS MAY ENTER WITHOUT LICENSES. ANOTHER 40 PERCENT IS COVERED BY A SYSTEM OF AUTOMATIC LICENSING. THUS APPROXIMATELY EIGHTY PERCENT OF ISRAEL'S IMPORTS REQUIRE LICENSES WHICH ARE GRANTED BY VARIOUS MINISTRIES AND SUBJECT TO QUANTITATIVE AND OTHER RESTRICTIONS. FOREIGN EXCHANGE

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IS AUTOMATICALLY GRANTED IMPORTS NOT REQUIRING A LICENSE.

HOWEVER, FOR OTHER IMPORTS BOTH THE MINISTRY HAVING JURISDICTION AND THE FINANCE MINISTRY'S FOREIGN EXCHANGE DIVISION MUST APPROVE THE TRANSACTION.

12. THE PRESENT GOVERNMENT HAS TAKEN A NUMBER OF STEPS DESIGNED TO SLOW DOWN ECONOMIC ACTIVITY. SHORTLY AFTER TAKING OFFICE IN JUNE, 1974, THE IMPORT SURCHARGE WAS INCREASED BY TEN PERCENT, THE PURCHASE TAX WAS RAISED, PROPERTY TAXES WERE IMPOSED, AND COMPULSORY LOANS WERE ALMOST DOUBLED. REDUCTIONS WERE MADE IN GOVERNMENT EXPENDITURES, BUILDING PROJECTS WERE FROZEN AND EXPORT INCENTIVES INCREASED.

13. IN NOV 1974, THE GOVERNMENT ANNOUNCED AN EMERGENCY ECONOMIC PROGRAM, WHICH WAS A CONTINUATION OF THE JULY MEASURES, BUT MORE ALL-INCLUSIVE. THE ISRAELI POUND WAS DEVALUED BY 43 PERCENT TO ISRAELI POUNDS SIX PER DOLLAR, SUBSIDIES ON BASIC COMMODITIES WERE REDUCED AND FUEL PRICES WERE RAISED FOR THE THIRD TIME SINCE THE OCT WAR. LIMITED OFFICIAL USE

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THE IMPORT SURCHARGE WAS REDUCED FROM 35 TO 15 PERCENT YIELDING AN EFFECTIVE RATE OF EXCHANGE FORM IMPORTS OF ISRAELI POUND 6.90, AN INCREASE OF 22 PERCENT. IMPORTS OF LUXURY ITEMS WERE PROHIBITED FOR SIX MONTHS AND AN ADDITIONAL IMPORT DUTY OF TEN PERCENT WAS IMPOSED ON OTHER LUXURY ARTICLES. EXPORT INCENTIVES WERE CHANGED TO YIELD AN EFFECTIVE RATE OF EXCHANGE FOR EXPORTS BETWEEN ISRAELI POUNDS 7.23 AND 7.64 PER DOLLAR DEPENDING UPON THE VALUE ADDED, FOR A NET INCREASE OF APPROXIMATELY 20 PERCENT.

14. IN FEB 1975, A PAYROLL TAX OF FOUR PERCENT WAS IMPOSED AND THE PURCHASE TAX INCREASED BY FOUR PERCENT ON MOST COMMODITIES.

15. IN JUNE 1975, A SYSTEM OF CREEPTING OR PERIODIC MIN-DEVALUATIONS WAS ANNOUNCED. THE POWER TO ALTER THE EXCHANGE RATE OF THE ISRAELI POUND WAS DELEGATED TO SEVERAL MINISTERS WHO COULD CHANGE IT BY MAXIMUM OF TWO PERCENT AT A MINIMUM OF 30 DAYS. TWO PERCENT MINI-DEVALUATIONS WERE IMPLEMENTED IN JUNE, AUGUST, AND SEPT.

16. MOST RECENTLY, ON SEPT 28, 1975, A SERIES OF NEW ECONOMIC MEASURES WAS ANNOUNCED, INCLUDING THE DEVALUATION OF THE ISRAELI POUND BY TEN PERCENT TO YIELD A NEW RATE OF ISRAELI POUND SEVEN PER DOLLAR. THE PURCHASE TAX WAS RAISED TEN PERCENT AND FUEL PRICES BY 21 PERCENT. THESE NEW MEASURES WERE DESIGNED TO DEAL WITH THE PROBLEMS OF ISRAEL'S DECLINING FOREIGN EXCHANGE RESERVES AND INCREASING BUDGETARY DEFICIT.

17. IN REVIEWING THE LAST YEAR OF ISRAELI ECONOMIC POLICY, IT IS APPARENT THAT THE GOI CANNOT IGNORE ITS WORSENING TRADE AND BALANCE OF PAYMENTS POSITION. THERE IS A GREAT DEAL OF DISCUSSION ABOUT THE NEED TO INCREASE EXPORTS, BUT THE ACTIONS TAKEN TO DATE HAVE NOT YIELDED SIGNIFICANT RESULTS. ADDITIONAL MEASURES, NOT ONLY TO STIMULATE EXPORTS, BUT TO RESTRAIN IMPORTS, WILL UNDOUBTEDLY BE FORTHCOMING IN THE COMING YEAR.

18. ANNEX A: THE IMPORTANT GOVERNMENTAL AGENCIES IN THE FORMULATION OF ISRAEL'S TRADE POLICY ARE THE MINISTRY LIMITED OFFICIAL USE

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OF COMMERCE AND INDUSTRY, THE MINISTRY OF FINANCE AND THE FOREIGN MINISTRY. THE MINISTRY OF AGRICULTURE PLAYS A ROLE IN QUESTIONS OF AGRICULTURAL EXPORTS. THE MINISTRY OF COMMERCE AND INDUSTRY IS THE AGENCY FORMALLY RESPONSIBLE FOR TAKING THE INITIATIVE IN FORMULATING TRADE POLICY. HOWEVER, THE FINANCE MINISTRY, THE DOMINANT INSTITUTION IN THE ISRAELI GOVERNMENT ON ALL ECONOMIC MATTERS, IN EFFECT HAS A VETO ON ANY PROPOSAL. THE FOREIGN MINISTRY IS CONSULTED ON ANY POLITICAL IMPLICATIONS.

19. AN INTERGOVERNMENTAL COMMITTEE CONSISTING OF REPRESENTATIVES OF THESE MINISTRIES IS IN CHARGE OF SETTING TRADE POLICY, SUBJECT TO THE APPROVAL OF THE RESPECTIVE MINISTERS. THE BANK OF ISRAEL OCCASIONALLY PERFORMS ANALYSES AND IS CONSULTED BY THE INTERGOVERNMENTAL COMMITTEE.

20. ANNEX B: THE MINISTRY OF COMMERCE AND INDUSTRY'S DEPUTY DIRECTOR GENERAL, ZEEV BIRGER IS PRESENTLY ACTING ASSISTANCE DIRECTOR GENERAL FOR FOREIGN TRADE. UNTIL A NEW ASSISTANT DIRECTOR GENERAL IS NAMED, THE MINISTRY'S LOWER ESCHOLON OFFICES WILL HAVE MORE INFLUENCE. THESE INCLUDE THE EUROPEAN AFFAIRS OFFICE HEADED BY JOSEPH MAZOR AND THE INTERNATIONAL ECONOMIC RELATIONS OFFICES UNDER BENJAMIN BARDA. AT THE FOREIGN MINISTRY, GAD ELRON, DIRECTOR OF THE ECONOMIC DIVISION AND YITZHAK MINERVI, HEAD OF THE OFFICE OF COMMON MARKET AFFAIRS FORMULATE THE FOREIGN MINISTRY'S POSITION. AT THE FOREIGN EXCHANGE DIVISION OF THE MINISTRY OF FINANCE DOV KANTOROWITZ IS THE MOST IMPORTANT FIGURE.

21. ISRAEL'S DELEGATION TO THE MTN WILL PROBABLY HAVE A GOOD DEAL OF LATITUDE IN DECIDING WHAT POSITIONS IT WILL TAKE. THE KEY CONTACT WILL BE EPHRAIM HARAN, THE DEPUTY PERMANENT REPRESENTATIVE TO GATT, AND AN OLD HAND ON INTERNATIONAL TRADE MATTERS. HIS ASSISTANT, MOSHE SEMADA, IS ALSO A USEFUL CONTACT. THE ISRAELI DELEGATION

WILL BE ASSISTED BY VISITING SPECIALISTS DURING THE  
NEGOTIATIONS.  
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